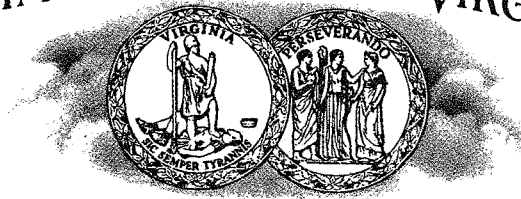


EXAMINATION REPORT
of
VIRGINIA FORESTRY SAFETY
GROUP SELF-INSURANCE ASSOCIATION
RICHMOND, VIRGINIA
as of
DECEMBER 31, 2007

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
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I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Virginia Forestry Safety Group Self-Insurance Association as of December 31, 2007, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 12th day of December, 2008

Alfred W. Gross
Commissioner of Insurance

(SEAL)

TABLE OF CONTENTS

DESCRIPTION.....	1
HISTORY	1
MANAGEMENT AND CONTROL	2
TERRITORY AND PLAN OF OPERATION	3
ADMINISTRATIVE AGREEMENT.....	3
CLAIMS SERVICE AGREEMENT	4
DIVIDENDS TO MEMBERS	5
FIDELITY BOND COVERAGE.....	5
SPECIAL RESERVES AND DEPOSITS	5
EXCESS INSURANCE COVERAGE	6
SCOPE	7
FINANCIAL STATEMENTS	8
RECOMMENDATIONS FOR CORRECTIVE ACTION	15
SUBSEQUENT EVENT.....	17
CONCLUSION	18

Richmond, Virginia
September 24, 2008

Honorable Alfred W. Gross
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by authority of Section 38.2-1317 of the Code of Virginia, an examination of the records and affairs of

**VIRGINIA FORESTRY SAFETY
GROUP SELF-INSURANCE ASSOCIATION**

Richmond, Virginia

hereinafter referred to as the Association, has been completed. The report is hereby submitted for your consideration.

DESCRIPTION

The Association is a group self-insurance association licensed to provide workers' compensation coverage and employers' liability coverage to its members pursuant to Section 65.2-802 of the Code of Virginia and 14 VAC 5-370-10 et seq. (Rules Governing Group Self-Insurers of Liability Under the Virginia Workers' Compensation Act) promulgated by the State Corporation Commission (the "Commission").

The Association was last examined by representatives of the Commission's Bureau of Insurance ("the Bureau") as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2007.

HISTORY

The Association was licensed by the Bureau effective January 1, 1995. According to its indemnity agreement, the Association was formed to allow members to self-insure and to pool their separate liabilities arising pursuant to the terms of the Virginia Workers' Compensation Act and for certain other types of employers' liabilities.

CLAIMS SERVICE AGREEMENT

Effective January 1, 2000, the Association entered into a claims service agreement with PMA Management Corporation ("PMA"). The original term of this agreement was for a period of 12 months and the agreement shall remain in full force and effect unless otherwise amended or terminated.

Under the terms of the agreement, the services provided by PMA include full claims handling and adjusting for all claims incurred during the period of the agreement until their conclusion, unless otherwise transferred; assisting the Association in the selection of outside vendors when necessary to professionally defend a claim; and notifying excess insurers of all qualified claims which may exceed the Association's retention.

Effective with an amendment dated January 1, 2004, PMA shall receive an annual fee of \$26,000, payable in quarterly installments, as compensation for its claims services. For managed care services, PMA receives \$95 per hour for medical case management services and \$85 per hour for disability management coordinators. For cost containment services, the Association pays \$8.25 per bill reviewed and PMA receives 35% of the savings generated.

In addition, the Association pays PMA an annual administrative service fee of \$4,500 to cover the costs of basic administrative services and fees, which may include, but not limited to, account setup, account maintenance, incurred banking fees, monthly loss analysis and monthly claim reconciliation. Finally, the Association pays an annual fee of \$3,500 to access PMA's Internet-based information system.

DIVIDENDS TO MEMBERS

Any surplus assets accumulated within a plan year may be declared refundable by the Board. Payment of this surplus in the form of dividends, however, may not be made until the Association has received approval from the Bureau. During the examination period, the Bureau approved the following dividends:

Approval Dates

<u>Fiscal Year</u>	<u>October 7, 2005</u>	<u>October 13, 2006</u>	<u>October 5, 2007</u>
1995		\$ 5,000	\$ 16,679
1996		10,000	20,000
1997		20,000	30,000
1998		10,000	30,000
2000		25,000	50,000
2001	\$ 5,000	50,000	50,000
2002	75,000	50,000	50,000
2003	45,000	25,000	20,000
2004			10,000
2005			10,000
2006			25,000
Totals	<u>\$ 125,000</u>	<u>\$ 195,000</u>	<u>\$ 311,679</u>

FIDELITY BOND COVERAGE

At December 31, 2007, the Association was listed as a named insured on a fidelity bond with a \$100,000 limit of liability to insure against losses arising from dishonest acts of its administrator and employees.

SPECIAL RESERVES AND DEPOSITS

At December 31, 2007, the Association had United States Treasury Notes with a par value of \$275,000 on deposit with the Treasurer of Virginia as required by 14 VAC 5-370-60 A.

EXCESS INSURANCE COVERAGE

The Association had both specific excess and aggregate excess insurance agreements in force at December 31, 2007, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limits</u>
Specific Excess	\$600,000 maximum for each accident and each employee for disease	Workers' Compensation Statutory Employers' Liability \$1,000,000
Aggregate Excess	133.73% of billed premium subject to a minimum retention of \$3,092,160	\$5,000,000

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period January 1, 2005 through December 31, 2007. Assets were verified and liabilities were established at December 31, 2007. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet had a medium or low risk assessment as determined from the principles of the risk-based examination approach contained in the NAIC Financial Condition Examiners Handbook. Analytical review procedures were applied to non-material items.

In addition, the following matters were reviewed, several of which are discussed separately under their respective captions in the report:

History
Management and Control
Territory and Plan of Operation
Administrative Agreement
Claims Service Agreement
Dividends to Members
Fidelity Bond Coverage
Special Reserves and Deposits
Excess Insurance Coverage
Financial Statements

FINANCIAL STATEMENTS

There follows a statement reflecting the financial condition of the Association at December 31, 2007, a statement of income for the year ended December 31, 2007, a reconciliation of members' equity for the period under review, a statement of members' account by fiscal year inception to date and a statement of Examiners' changes in members' equity.

BALANCE SHEET
DECEMBER 31, 2007

ASSETS

Bonds, long term	\$4,826,030
Other invested assets	38,354
Cash on deposit	44,324
Deposit with service agent	99,324
Premiums receivable	97,038
Interest due and accrued	65,611
Amounts recoverable on paid losses	2,168
Income taxes receivable	223,162
Prepaid administrative fees	14,565
Prepaid excess insurance premiums	27,532
	<hr/>
Total assets	<u><u>\$5,438,108</u></u>

LIABILITIES AND MEMBERS' EQUITY

Losses unpaid	\$4,172,780
Loss adjustment expenses unpaid	98,390
Contingency reserve	567,126
Unearned premiums	309,174
Premium refunds payable	199,933
Service agent's fees payable	622
Taxes, licenses and fees payable	43,844
Dividends payable	291,095
Professional fees payable	13,000
Investment fees payable	1,300
	<hr/>
Total liabilities	\$5,697,264
Restricted members' equity	277,834
Unrestricted members' equity	(536,990)
	<hr/>
Total liabilities and members' equity	<u><u>\$5,438,108</u></u>

STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2007

UNDERWRITING INCOME

Premiums earned	<u>\$1,618,353</u>
Deductions:	
Losses incurred	\$1,365,221
Loss expenses incurred	86,771
Other underwriting expenses incurred	363,936
Contingency reserve	<u>56,322</u>
Total underwriting deductions	<u>\$1,872,250</u>
Net underwriting loss	<u>(\$253,897)</u>

INVESTMENT INCOME

Net investment income earned	\$206,114
Net realized capital (losses)	<u>(13,666)</u>
Net investment gain	<u>\$192,448</u>
Net loss before federal income taxes	(\$61,449)
Federal income taxes incurred	<u>579</u>
Net loss	<u><u>(\$62,028)</u></u>

RECONCILIATION OF MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Members' equity, previous year before undistributed dividends	* \$316,229	\$19,744	\$220,724
Adjustment for previous examination changes	(18,894)		
Net income or (loss)	(107,885)	354,113	(62,028)
Net unrealized capital gain or (loss)	(58,939)	7,921	116,253
Dividends paid to members	<u>(110,767)</u>	<u>(161,054)</u>	<u>(243,010)</u>
Restricted and unrestricted members' equity, end of year	\$19,744	\$220,724	\$31,939
Less: Restricted members' equity, end of year	<u>270,257</u>	<u>269,209</u>	<u>277,834</u>
Unrestricted members' equity, end of year before undistributed dividends	(\$250,513)	(\$48,485)	(\$245,895)
Less: Dividends declared but unpaid	<u>188,480</u>	<u>222,426</u>	<u>291,095</u>
Unrestricted members' equity, end of year	<u><u>(\$438,993)</u></u>	<u><u>(\$270,911)</u></u>	<u><u>(\$536,990)</u></u>

* Adjusted members' equity from previous examination.

Members' Account By Fiscal Year Inception to Date December 31, 2007

	All Other Fiscal Years Preceding 1995-2003	Third Fiscal Year Preceding 2004	Second Fiscal Year Preceding 2005	First Fiscal Year Preceding 2006	Current Calendar Year 2007	Total Inception to Date (1995-2007)
<u>Income Received</u>						
Premiums written	\$12,000,260	\$1,445,794	\$1,726,650	\$1,806,975	\$2,333,705	\$19,313,384
Less: Excess insurance	1,272,714	244,276	144,777	262,157	312,860	2,236,784
Net premiums written	\$10,727,546	\$1,201,518	\$1,581,873	\$1,544,818	\$2,020,845	\$17,076,600
Investment income	1,160,382	48,842	53,810	23,761	180,862	1,467,657
Allocation between years	65,838	13,735	30,058	40,885	(150,516)	0
Other	154,716	0	0	0	51,469	206,185
Total income collected	\$12,108,482	\$1,264,095	\$1,665,741	\$1,609,464	\$2,102,660	\$18,750,442
<u>Less: Expenses Paid</u>						
Losses paid	\$5,121,376	\$528,328	\$550,516	\$278,015	\$153,934	\$6,632,169
Allocated loss adjustment expenses paid	254,995	60,270	43,270	20,973	9,855	389,363
Administrative fees	1,564,531	187,953	224,464	234,907	264,748	2,476,603
Service agent's fees	211,991	44,268	43,061	46,818	38,736	384,874
Taxes, licenses, and fees	304,416	44,740	30,945	41,730	0	421,831
Federal income tax	385,941	0	0	128,513	223,741	738,195
Other expenses	132,013	18,722	18,446	26,227	4,156	199,564
Total expenses	\$7,975,263	\$884,281	\$910,702	\$777,183	\$695,170	\$11,242,599
Net cash income	\$4,133,219	\$379,814	\$755,039	\$832,281	\$1,407,490	\$7,507,843
<u>Add: Receivables</u>						
Premiums receivable	\$0	\$0	\$0	\$0	\$97,038	\$97,038
Interest due and accrued	23,883	4,983	10,904	14,832	11,009	65,611
Recoverable on paid losses	2,168	0	0	0	0	2,168
Other	0	0	0	0	265,259	265,259
Total	\$26,051	\$4,983	\$10,904	\$14,832	\$373,306	\$430,076
<u>Deduct: Liabilities</u>						
Losses unpaid	\$331,831	\$250,000	\$549,999	\$1,303,754	\$1,737,196	\$4,172,780
Loss adjustment expenses	10,886	0	2,085	32,085	53,334	98,390
Contingency reserve	360,010	43,373	51,800	54,208	57,735	567,126
Unearned premiums	0	0	0	0	309,174	309,174
Premium refunds payable	0	0	0	0	199,933	199,933
Service agent's fees payable	0	0	0	0	622	622
Taxes, licenses and fees payable	0	0	0	0	43,844	43,844
Other expenses payable	0	0	0	0	14,300	14,300
Total	\$702,727	\$293,373	\$603,884	\$1,390,047	\$2,416,138	\$5,406,169

Members' Account By Fiscal Year Inception to Date December 31, 2007

	All Other Fiscal Years Preceding 1995-2003	Third Fiscal Year Preceding 2004	Second Fiscal Year Preceding 2005	First Fiscal Year Preceding 2006	Current Calendar Year 2007	Total Inception to Date (1995-2007)
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$3,456,543	\$91,424	\$162,059	(\$542,934)	(\$635,342)	\$2,531,750
Less: Dividends paid inception to date by fiscal year	2,459,143	9,161	9,539	21,968	0	2,499,811
Less: Restricted Members' Equity by fiscal year	<u>55,567</u>	<u>55,567</u>	<u>55,567</u>	<u>55,567</u>	<u>55,566</u>	<u>277,834</u>
Unrestricted Members' Equity undistributed by fiscal year	\$941,833	\$26,696	\$96,953	(\$620,469)	(\$690,908)	(\$245,895)
Less: Dividends declared but unpaid	<u>286,763</u>	<u>839</u>	<u>461</u>	<u>3,032</u>	<u>0</u>	<u>291,095</u>
Unrestricted Members' Equity 12/31/07	<u>\$655,070</u>	<u>\$25,857</u>	<u>\$96,492</u>	<u>(\$623,501)</u>	<u>(\$690,908)</u>	<u>(\$536,990)</u>

STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY
DECEMBER 31, 2007

	Amount Per <u>Association</u>	Amount Per <u>Examiner</u>	Increase (Decrease) <u>Members' Equity</u>
<u>Assets:</u>			
Premiums receivable	\$0	\$97,038	\$97,038
Prepaid administrative fees	4,808	14,565	9,757
Prepaid excess insurance premiums	0	27,532	27,532
<u>Liabilities:</u>			
Loss adjustment expenses unpaid	\$50,285	\$98,390	(\$48,105)
Contingency reserve	569,378	567,126	2,252
Premium refunds payable	24,995	199,933	(174,938)
Service agent's fees payable	0	622	(622)
Taxes, licenses and fees payable	45,000	43,844	1,156
Professional fees payable	13,650	13,000	650
Examiners changes in members' equity			<u>(\$85,280)</u>
Restricted and unrestricted members' equity per Association			(\$173,876)
Restricted and unrestricted members' equity per Examiners			<u>(259,156)</u>
Decrease in restricted and unrestricted members' equity			<u>(\$85,280)</u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

1. The results of this examination reflect an unrestricted members' equity deficit for the 1999, 2006 and 2007 fiscal years of \$39,997, \$623,501 and \$690,908, respectively. The Board is reminded of its responsibility to assure that the Association is financially sound and able to fulfill its obligations under the Virginia Workers' Compensation Act.

Accounts and Records

- | | |
|--------------------------------|-----------|
| 2. <u>Premiums receivable</u> | \$97,038 |
| <u>Premium refunds payable</u> | \$199,933 |

The above amounts have been increased \$97,038 and \$174,938, respectively. The Examiners' amounts are based on a review of the subsequent 2007 member payroll audits and reflect differences between audited contributions and contributions paid at December 31, 2007. The premiums receivable amount has also been adjusted by \$1,916 for premiums over 90 days that are nonadmitted.

- | | |
|---------------------------------------|----------|
| 3. <u>Prepaid administrative fees</u> | \$14,565 |
|---------------------------------------|----------|

The above asset is \$9,757 more than the amount reported by the Association in its 2007 Annual Statement. The Examiners' amount is based on the actual fees paid compared to the fees required by the administrative agreement at December 31, 2007.

- | | |
|---|----------|
| 4. <u>Prepaid excess insurance premiums</u> | \$27,532 |
|---|----------|

The above asset has been established by the Examiners. The Examiners' amount is attributed to a decrease in the normal premium, as defined by the excess insurer and developed from subsequent 2007 member payroll audits, which is the basis for computing excess insurance premiums.

- | | |
|---|----------|
| 5. <u>Loss adjustment expenses unpaid</u> | \$98,390 |
|---|----------|

The above liability is \$48,105 more than the amount reported by the Association in its 2007 Annual Statement. The increase in Loss adjustment expenses unpaid by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Association</u>	<u>Examiners</u>	<u>Increase</u>
1999	\$ 0	\$ 2,500	\$ 2,500
2005	0	2,085	2,085
2007	9,814	53,334	<u>43,520</u>
Total change			<u>\$ 48,105</u>

The Examiners' increase results from a development of loss adjustment expenses paid and reserves changes occurring during the period January 1, 2008 through July 31, 2008, on claims incurred December 31, 2007 and prior. The Association should review its methodologies to ensure sufficient loss adjustment expense reserves are established in all future filings.

6. Contingency reserve \$567,126

The above liability is \$2,252 less than the amount reported by the Association in its 2007 Annual Statement. The Examiners' amount is the result of a decrease in earned premium based on a review of subsequent 2007 member payroll audits, which is the basis for the calculation of the contingency reserve.

7. Service agent's fees payable \$622

The above liability has been established by the Examiners. The Examiners' amount is based on a review of invoices paid in 2008 for managed care fees incurred in December 2007.

8. Taxes, licenses, and fees payable \$43,844

The above liability is \$1,156 less than the amount reported by the Association in its 2007 Annual Statement. The Examiners' amount is based on a review of invoices paid in 2008 for taxes and services pertaining to or provided in 2007.

9. Professional fees payable \$13,000

The above liability is \$650 less than the amount reported by the Association in its 2007 Annual Statement. The Examiners' amount is based on a review of invoices paid in 2008 for accounting and auditing services pertaining to or provided in 2007.

SUBSEQUENT EVENT


On September 16, 2008, the Bureau approved dividends for the Association totaling \$510,423.

CONCLUSION

The courteous cooperation extended by the Association's administrator and service agent during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Darrin P. Bailey, Sr., CFE, MHP participated in the work of the examination.

Respectfully submitted,



George E. Morgan, CFE
Insurance Examiner

VIRGINIA FORESTRY SAFETY GROUP SELF INSURANCE ASSOCIATION

Administered By
SELF INSURANCE SERVICES, LLC
COST CONTROL THROUGH SERVICE

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December 1, 2008

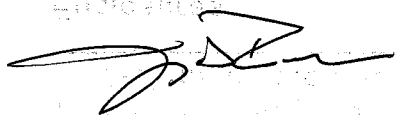
Mr. David H. Smith, CFE, CPA, CPCU
Chief Examiner
State Corporation Commission
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

Dear Mr. Smith:

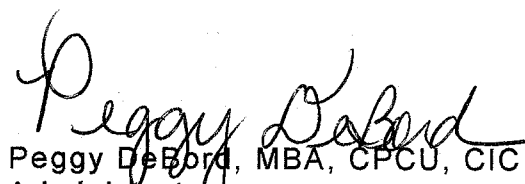
Enclosed are the responses to your recommendations for corrective action for Virginia Forestry Safety Group Self Insurance Association during the examination period January 1, 2005 through December 31, 2007.

Please let me know if you have any questions concerning our responses.

Sincerely,



Jerry D. Rose
Chairman
Members' Supervisory Board
Virginia Forestry Safety Group
Self Insurance Association



Peggy DeBord, MBA, CPCU, CIC
Administrator
Virginia Forestry Safety Group
Self Insurance Association

Enclosures

Virginia Forestry Safety Group Self Insurance Association

Responses to Recommendations for Corrective Action

Management and Control

1. The Association is aware of and will make every effort to assure that the Association is financially sound and able to fulfill its obligations under the Virginia Workers' Compensation Act.

Accounts and Records

2. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.
3. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed.
4. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.
5. The Association agrees with this adjustment. The adjustment was made with the available information at the time the financial statement was filed. The IBNR number is unpredictable based on claims that change. The Association makes every effort to set reserves sufficiently, and again has reminded our service company to do so.
6. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.
7. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent invoice information not available at the time the financial statement was filed.
8. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent invoice information not available at the time the financial statement was filed.

9. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent invoice information not available at the time the financial statement was filed.